

TAXES, SPENDING & BUDGETING

**Special Counsel Presentation
3/6/06**

Real Property Tax Divisions

- County of Hawaii – Division of the Department of Finance
- County of Maui – Division of the Department of Finance
- City & County of Honolulu – Division of the Department of Budget & Fiscal Services

Tax & Expenditure Limits: Overview*

- 30 states have some form of restricted spending or revenue growth but there is a wide variety of implementation.
- Maine is the only state since 2002 to enact a new spending limit statute.
- In November 2005, voters rejected additional state spending limits in California and relaxed tax and expenditure limits in Colorado.
- In 2006, 12 states are debating TELs, including ballot initiatives in at least 2 states (Ohio & Oregon)

*National Conference of State Legislatures

State TEL Laws

Hawaii State Constitution, Article VII, Taxation and Finance (handout)

Disposition of Excess Revenues

Section 6. Whenever the state general fund balance at the close of each of two successive fiscal years exceeds five percent of general fund revenues for each of the two fiscal years, the legislature in the next regular session shall provide for a tax refund or tax credit to the taxpayers of the State, as provided by law.

General Fund Expenditure Ceiling

Section 9. Notwithstanding any other provision to the contrary, the legislature shall establish a general fund expenditure ceiling which shall limit the rate of growth of general fund appropriations, excluding federal funds received by the general fund, to the estimated rate of growth of the State's economy as provided by law. No appropriations in excess of such ceiling shall be authorized during any legislative session unless the legislature shall, by a two-thirds vote of members to which each house is entitled, set forth the dollar amount and the rate by which the ceiling will be exceeded and the reasons therefor.

Debt Limit; Exclusions

Section 13 basically limits the total amount of principal and interest payable on all outstanding general obligation bonds to 18 % of the average of the general fund revenues for 3 fiscal years immediately preceding issuance of bonds.

Colorado

The Taxpayer's Bill of Rights (TABOR)

1. Constitution, Article X, Section 20 (handout)
2. Article IX, Section 17 (Amendment 23)
3. Arveschoug-Bird appropriation growth limit
 - §24-75-201.1(1) CRS
 - General Fund transfers excluded from the limit
 - Capital Construction Fund: §24-75-302(2) CRS
 - Controlled Maintenance Trust Fund: §24-75-201.1(1)(c.5)(II) CRS
4. Diversions from General Fund revenues
 - Highway Users Tax Fund: 39-26-123(2) CRS
 - State Education Fund: Constitution, Art. IX, Sec. 17(4)
 - Older Coloradans Program: 26-11-205.5

TABOR Summary

- Requires Voter Approval of Revenue Increases. Examples are any new tax, tax rate increase, mill levy above that for the prior year, valuation for assessment ratio increase for a property class, extension of expiring tax.
- Limits Revenue Collections. Prescribes a formula for growth in spending and requires that all revenue in excess of that amount be returned to the taxpayers.
- Limits the ability of government to spend the revenues it raises.
- Limits taxation options. Places limitations on the types of taxes that can be proposed and implemented.

Maine

- The only state since 2002 to enact a new spending limit statute. See handout.
- In 2005, its legislature crafted a statutory spending limit based on average personal income growth over time.
- On October 21, 2005, signatures were submitted to place TABOR on the November 2006 ballot.

Things to Consider if Designing a Fiscal Limit

1. What is limited, revenues or expenditures? Any exclusions?
2. What should the growth factor be? Population plus inflation or state personal income growth? Which measures of inflation and population will be used.
3. How is the growth measure calculated, e.g., what time periods are used?
4. Is the baseline revenue or spending a one year amount or multi-year average?
5. What triggers the limit to be adjusted, and how often might this occur?
6. For revenue limits, is there a threshold after which a rebate is activated?
7. Is there a disaster or emergency exception?
8. Is an adjustment allowed for a major state-local funding relationship change?
9. Can a limit be overridden by a super majority vote in the legislature?
10. Is there a sunset date on the fiscal limit?
11. Are any limits extended to local government revenues or outlays?